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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [BE](#)  
SUBJECT: AFTER THE FINANCIAL EARTHQUAKE: A NEW BANKING  
LANDSCAPE TAKES SHAPE IN BELGIUM

Classified By: POLITICAL/ECONOMIC COUNSELOR RICHARD EASON FOR REASONS 1  
.4(B)and (D)

SUMMARY

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11. (C) While a large part of the francophone bourgeoisie in Brussels is still reeling from the fire sale of the country's largest bank, Fortis, to BNP Paribas last week, Belgian officials and Flemish politicians are fighting vigorously to strengthen Dexia and KBC, the only two remaining large Belgian banks in the financial landscape. END SUMMARY.

FORTIS SHARES TUMBLE BY 80 PERCENT

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12. (C) After the \$ 11.3 billion sale of a large part of Fortis Bank to BNP Paribas of France, the Brussels Stock Exchange temporarily halted its stock quotations on October 16. When the stock was allowed to trade again one week later, it promptly fell by 80 percent. The entity left behind on the Brussels Stock exchange and once Belgium's top bank, contains, apart from the cash the GOB obtained for Fortis Netherlands, also some international insurance portfolios as well as the 'bad bank' debts that were at the root of the fall of Fortis (in a structured investment vehicle called Scaldis).

13. (C) There is a lot of anger in Brussels, not only towards the Dutch Finance Minister Bos, whose comments (that the 'bad bank' credits were exclusively with the Belgian Fortis group) are seen as the primary cause of the fire sale, but also about the format of the sale. Legal experts agree that the GOB with its 49 percent share in Fortis was in no position to strike a deal with BNP Paribas. Several shareholders have already started class action suits to stop the sale and a Finance Ministry official confirmed that the case will be presented in court on Tuesday October 21. Also, BNP Paribas seems to have inherited quite a few disgruntled Fortis employees, many of whom were in the past encouraged to buy Fortis shares at a 20 percent discount. Most important however, is the fact that Fortis was considered to be the bank of the francophone bourgeoisie (MR and CdH) in Brussels, often called 'the last of the Belgians'. This pillar of all things Belgian has now suffered a severe blow to its wallet.

SAVING DEXIA AT ALL COSTS

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14. (C) Shortly after the Fortis drama was played out, the governments of Belgium, France and Luxembourg huddled to try to save Dexia, Belgium's second largest bank. Professor Vuchelen (Free University of Brussels) told us that during these talks there was a grim determination by the Belgian side not to allow Dexia to be sold to another French Bank. PM Leterme already considered the Fortis sale to be 'political

suicide'. This time, it was the Belgians who wanted to get out, since Dexia's US monoline vehicle FSA is largely seen as an acquisition by the French Dexia arm. Moreover, Dexia has most of its retail activities in Belgium, and not in France. Since the fall of Dexia would have had immediate consequences on French and Belgian communes (who almost entirely rely on Dexia for their finances), the French, Belgian and Luxembourg governments eventually agreed to guarantee all debt issued by Dexia between November 1 of this year and October 31 of next year. After a complaint by the Belgian banking association, the GOB was forced to extend that guarantee to all Belgian banks.

#### UNCERTAINTY OVER FSA STATUS IN PAULSON PLAN

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¶5. (C) Still, the three governments were unable to solve the FSA issue, which still hovers as a shadow over Dexia. Dexia management is still very eager to find out how FSA, a US banking vehicle, will be treated under the Paulson plan. If the US interbank market opens up again for FSA, they assume that that will also mean the end of Dexia's FSA worries. If not, a split up of Dexia along French, Belgian and Luxembourg lines continues to be a serious option.

#### KBC in safe waters

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¶6. (C) KBC, the third largest bank in Belgium before the financial crisis erupted, now finds itself in pole position. In the past few weeks, it has gained many new customers (mainly from Fortis), and has an excellent balance sheet with

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only a very small subprime exposure. An unfortunate comment by National Bank of Belgium governor Quaden that 'even very healthy banks can find themselves in the line of fire' caused a massive sale of KBC shares last week, but Quaden has apologized in the meantime and the KBC share price has somewhat stabilized. KBC is very cautious for the moment, and awash with cash, as investment bank Petercam's Chief Economist puts it.

#### Comment

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¶7. (C) Both Dexia and KBC are seen as important financial vehicles for Flemish christian-democratic and to a lesser extent Flemish liberal parties. Fortis was the bank of the Francophone liberals and christian-democrats. Quite a few commentators have already pointed out that both KBC and Dexia continue to be vigorously defended by their political allies (former PM Dehaene--a Christian Democrat--was even appointed as director of the board), while the enthusiasm to prevent the fatal break-up of Fortis was close to zero. As political commentator Derk-Jan Eppink put it, "Dutch Finance minister Bos achieved in twenty seconds what the far right Flemish party Vlaams Belang could not do in 20 years", i.e to demolish one of the few remaining pillars of the Belgian federal state. It will take time for both the political and economic fall-out from Belgium's financial crisis to play itself out. In the run-up to next year's regional elections in June, Belgian voters and share-holders and savers will be watching this process with rapt attention. FOX

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